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Strategic Energy Assessment for the Years January 1, 2016, Through December 31, 2022

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To Whom It May Concern:

We are writing today to comment on the draft of Wisconsin's Strategic Energy Assessment 2022 ("SEA 2022"). Pursuant to Wis. Stat. § 196.491(2)(a), the Strategic Energy Assessment "shall do all of the following," including "assess the extent to which effective competition is contributing to a reliable, low-cost and environmentally sound source of electricity for the public." As the draft SEA 2022 notes in a footnote, "Wisconsin does not have retail competition," however, the draft SEA does not report any analysis concerning the potential benefits of a transition to retail electricity choice (SEA 2022 at 9 n.4.).

The most obvious benefit of retail electricity choice is lower electricity prices for consumers. The table below conveys historical retail prices for electricity in Illinois and Wisconsin as reported by the Energy Information Administration where average retail prices between 2007 and 2014 in Illinois have averaged 10.6% lower for residential consumers, 8.7% lower for commercial consumers, and 6.6% lower for industrial consumers.[1]

Comparison of Retail Electricity Prices in Wisconsin and Illinois (¢/kWh)						
Year	Wisconsin			Illinois		
	Residential	Commercial	Industrial	Residential	Commercial	Industrial
2007	10.87	8.71	6.16	10.12	8.57	6.61
2008	11.51	9.28	6.51	11.07	9.25	7.34
2009	11.94	9.57	6.73	11.27	9.05	7.01
2010	12.65	9.98	6.85	11.52	8.88	6.82
2011	13.02	10.42	7.33	11.78	8.64	6.42
2012	13.19	10.51	7.34	11.38	7.99	5.80
2013	13.55	10.75	7.40	10.63	8.14	5.94
2014	13.67	10.77	7.52	11.91	9.26	6.85
Average	**12.55**	**10.00**	**6.98**	**11.21**	**8.72**	**6.60**

Of note, roughly 2/3 of Illinois load is situated within the PJM Regional Transmission Organization, which on average has energy and capacity prices greater than those found in MISO. Thus, the downward pressure on retail energy prices may be greater in Illinois than what appears on the chart.

Because retail electric choice represents the potential to capture millions in annual cost savings for consumers, we encourage policymakers to consider at least a partial migration towards retail electricity choice. The following comments are intended to serve as a roadmap for how such a

[1] https://www.eia.gov/electricity/data/state/ (accessed July 7, 2016.) We note that some values are different than in the draft SEA 2022 (*see, e.g.*, SEA 2022 at 32-33), but not materially.

partial adoption of retail electricity choice elements can be structured for the near term benefit of Wisconsin's consumers.

Mark Pruitt was the first director of the Illinois Power Agency ("IPA"), and served in that role for four years. Michael Strong was the first in-house counsel at the IPA, serving under two directors. Combined, Mark and Michael guided the IPA through the first seven years of the Agency's existence. The IPA acts as the primary market intermediary for residential and small commercial electricity consumers taking default rate service in Illinois' retail choice market, and can serve as a template for transitioning to a retail electricity choice structure in Wisconsin.

Consider the history of the transition to retail electricity choice in Illinois:

- In 1997, the Illinois General Assembly passed the Electric Service Customer Choice and Rate Relief Law (220 ILCS 5/16-101 *et seq.*) that set a ten-year transition to retail electric choice, during which: (1) utilities would sell or transfer to affiliates generation assets, (2) retail electric suppliers could be licensed and serve customers, (3) customers would pay a non-bypassable "transition charge" to offset utility stranded costs, and (4) distribution rates were frozen. After the transition period, regulated utilities were generally restricted to owning distribution and transmission assets, and cost-based distribution rates continued to be set through rate cases.

- A two-tiered approach was applied to electric default service (*i.e.* the service available to a customer who does not select a retail supplier or wishes to continue with the utility). If an account was in a customer class had not yet been declared to be "competitive," then fixed-rate bundled service would be available to customers in that rate class as the default product (customer classes were determined to be "competitive" based on a specific administrative process and standards). If the account was in a customer class had been declared "competitive," then the only default utility supply service option would be hourly energy procured in day-ahead wholesale markets.

- In 2007, the IPA was created as a new state agency to serve as a neutral procurement agent for utility default service. The IPA procures energy (and, in certain circumstances, capacity) on behalf of electric utilities' fixed-price bundled service portfolios. On an annual basis, and pursuant to approval by the Illinois Commerce Commission the IPA: (1) estimates demand for the bundled rate for the coming year, (2) analyzes the difference between supply under contract and projected demand, and (3) procures an approved volume to make up an agreed percentage of the shortfall. To the extent the shortfall is not procured on a forward basis or in the event the utilities are long, the difference is made up in RTO day-ahead energy markets.

- In addition to meeting supply needs, the IPA also procures renewable energy resources using three different funding sources. First, the IPA procures renewable resources on behalf of customers taking fixed-rate bundled service to either meet the minimum applicable percentage, or procure up to the statutory cost cap for renewable resources. Additionally, the IPA may supplement those procurements using funds collected from customers on utility-supplied hourly pricing. Finally, for customers taking service from retail electric suppliers, the IPA (with the support of the Illinois Commerce Commission) collects statutorily-mandated payments that retail electric suppliers make for partial or full compliance with the

Illinois renewable energy standard. These funds have been used both to supplement utility procurements and conduct separate procurements for distributed solar energy resources.

Wisconsin can capture the benefits of retail electric competition on an accelerated schedule by creating a Wisconsin Power Agency (WPA) that is structured in a manner similar to the IPA. At its core, the WPA would serve as a conduit for transparent wholesale competition for Wisconsin's utility load while recovering stranded costs for Wisconsin utilities. Such an approach could be modeled as follows:

- **Planning.** The WPA would establish statewide electricity load requirements and projections on an annual basis. These projections would identify the extent projected electricity load would be served by: 1) power plants currently owned and operated by Wisconsin's vertically integrated utilities, and 2) independent power producers. Just as in the SEA process, load forecasts will come from the utility but as in Illinois it would be the responsibility of the WPA to analyze the risks of load migration based on that data.

- **Procurement.** The WPA would manage a competitive procurement program to secure electricity supply from generation assets currently owned by utilities as well as independent power producers. Initially, purchases from utility-owned generating assets could be at a price and term structured to allow for full capital recovery at approved rates of return. After full capital recovery has been achieved, utility-owned power plants could be allowed to compete with independent power producers in annual procurement events managed by the WPA. In these competitive procurement, fully cost-recovered utility-owned power plants would be treated the same as independent power producers and not be guaranteed minimum prices, terms, or contract volumes. To the extent that investment in new generation is needed, the WPA could use the competitive process to achieve lower costs than the traditional utility rate of return cost recovery basis. Although transactions (to affiliates or non-affiliates) involving the generation assets currently owned by utilities would be a natural transition and one that occurred in Illinois, it is not necessarily required for this framework.

- **Renewables.** The WPA could serve as a conduit to support renewable energy asset development through the use of competitively sourced power purchase agreements. The WPA would seek to meet Wisconsin's renewable energy goals on an approved schedule and subject to firm cost limits. The mix of short-term RECs, long-term new development, fuels, and other short- and long-term planning would still be the purview of the Wisconsin PSC, but the planning would be the responsibility of the WPA. The integrated long-term planning, however, would allow socialization of large projects over multiple utilities' default customers in a way that is not typical among vertically integrated utilities.

In closing, we recommend that Wisconsin give due consideration to a transition to retail electric choice in the Strategic Energy Assessment 2022, and to evaluate the use of an Illinois Power Agency-like structure as one of the alternatives to transition to retail electric choice.

Sincerely,

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